

## Message Text

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ACTION EB-08

INFO OCT-01 EA-07 ISO-00 COME-00 STR-04 L-03 AGRE-00

CIAE-00 INR-07 NSAE-00 ITC-01 TRSE-00 /031 W

-----291219Z 022881 /22

R 290800Z MAR 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 7728

C O N F I D E N T I A L SECTION 1 OF 2 MANILA 4599

DEPT PASS USDA

E.O. 11652: GDS

TAGS: EAGR, RP, TRD

SUBJECT: SUGAR: GOP CONCERN OVER ITC AND CONTRACT RENEGOTIATIONS

REF: A. MANILA 2642 B. MANILA 2204

SUMMARY: GOP OFFICIALS ARE VERY CONCERNED THAT RECENT ITC RULING ON SUGAR WILL ENGENDER NATIONAL QUOTAS WHICH WILL REDUCE PHILIPPINE SUGAR SALES IN U.S. BELOW 1.35 MMT MINIMUM CALLED FOR BY EXISTING PARTICIPATING CONTRACTS WITH U.S. REFINERIES. METHOD AND TIMING OF PAYMENT UNDER PARTICIPATING CONTRACTS HELD BY GREAT WESTERN AND SUCREST ARE NOW IN DISPUTE AND WILL CERTAINLY BE CONTENTIOUS ISSUE DURING TALKS REQUESTED BY GOP TO NEGOTIATE AMENDMENTS TO CURRENT CONTRACTS. GREAT WESTERN NEGOTIATORS ARE EXPECTED IN MANILA AROUND APRIL 11. END SUMMARY.

1. AS MIGHT BE EXPECTED, GOP OFFICIALS ARE SHOWING SHARP INTEREST IN TREATMENT WHICH WILL BE ACCORDED PARTICIPATING CONTRACTS WITH THREE U.S. REFINERIES WHEN (AND IF) PRESIDENT CARTER RECOMMENDS SOME FORM OF SUGAR IMPORT QUOTAS. THESE FIVE-YEAR CONTRACTS OBLIGATE THE THREE REFINERIES TOGETHER TO PURCHASE A MINIMUM OF 1.35 MILLION METRIC TONS (MMT) OF SUGAR PER YEAR OVER A FIVE YEAR PERIOD, CONFIDENTIAL

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WHILE LARGEST NATIONAL QUOTA WHICH MIGHT BE ACCORDED PHILIPPINES UNDER VARIOUS FORMULAS BASED ON PAST SHIPMENTS UNDER VARIOUS FORMULAS BASED ON PAST SHIPMENTS SEEMS TO BE AROUND ONE MILLION SHORT TONS.

2. GOP OFFICIALS FAMILIAR WITH RENEGOTATION OF SUCREST AND GREAT WESTERN CONTRACTS TOLD EMBOFF THAT EXISTING

CONTRACTS WOULD PROBABLY NOT RPT NOT BE REPLACED BUT RATHER AMENDED. AS DISCUSSED REF A., ONE KEY AMENDMENT TO BOTH SUCREST AND GREAT WESTERN CONTRACTS CONCERNS PAYMENT PROCEDURES. GREAT WESTERN, SUCREST AND TEXAS IMPERIAL ARE CURRENT "ADVANCING" PAYMENT ON SUGAR PURCHASED UNDER PARTICIPATING CONTRACTS AS FOLLOWS:

-- GREAT WESTERN: PAYMENT IS MADE TO GOP ON DATE SHIP SAILS ON BASIS OF SPOT PRICE OF THAT DATE. IT TAKES ABOUT 33 DAYS FOR THE SHIP TO REACH G.W.'S PLANT AT RESERVE, LOUISIANA. THE FINAL PRICE RECEIVED BY GOP FOR THIS SUGAR IS BASED ON AVERAGE SALE PRICE OF ALL REFINED SUGAR SOLD BY REFINERY DURING MONTH OF ARRIVAL OF SHIP MINUS "REFINING COSTS" (AS DEFINED BY COMPLICATED FORMULA CONTAINED IN THE CONTRACT).

-- SUCREST: SUCREST'S PAYMENTS FORMULA IS REPORTEDLY SIMILAR TO THAT OF G.W. WITH IMPORTANT DIFFERENCES

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ACTION EB-08

INFO OCT-01 EA-07 ISO-00 COME-00 STR-04 L-03 AGRE-00  
CIAE-00 INR-07 NSAE-00 ITC-01 TRSE-00 /031 W  
-----291219Z 023262 /11

R 290800Z MAR 77  
FM AMEMBASSY MANILA  
TO SECSTATE WASHDC 7729

C O N F I D E N T I A L SECTION 2 OF 2 MANILA 4599

DEPT PASS USDA

THAT SUCREST PAYS FOR SUGAR WHEN SHIP SAILS AT FIXED RATE OF 15 U.S. CENTS PER POUND, AND FINAL PRICE IS TIED (WE UNDERSTAND) TO DATE OF SALE OF REFINED SUGAR RATHER THAN DATE OF SHIP ARRIVAL.

--TEXAS IMPERIAL: PAYMENT IS MADE AT RATE OF 12 CENTS PER POUND ON DATE SUGAR IS SHIPPED AND RE- PAYMENT IS MADE (AS IN CASE OF G.W.) ON BASIS OF AVERAGE SALE PRICE OF ALL REFINED SUGAR SOLD BY REFINERY DURING MONTH OF ARRIVAL OF SHIP MINUS REFINING COSTS.

4. DURING CONTRACT RENEGOTIATIONS, GOP HAS ASKED G.W. TO ACCEPT "TEXAS IMPERIAL FORMULA" OF PAYMENT WITH "RED CLAUSE" DESCRIBED BELOW, AND WE UNDERSTAND THAT G.W. HAS AGREED IN PRINCIPLE TO DO SO IN RETURN FOR CERTAIN QUID PRO QUOS. SUCREST WOULD BE HAPPY TO GO TO TEXAS IMPERIAL FORMULA WITH ITS LOWER ADVANCE PAYMENT OF 12 CENTS, BUT THIS TIME IT IS GOP WHICH IS ASKING FOR QUID PRO QUOS. AS REPORTED REF. B, GOP ALSO WANTS "RED CLAUSE" WHICH PROVIDES THAT ADVANCED PAYMENT WILL (1) BE BASED ON "QUEDANS", OR WAREHOUSE RECEIPTS, AND (2) TAKE PLACE AS SOON AS SUGAR IS PRODUCED. G.W. IS DEMANDING AS SINE QUA NON FOR RENEGOTATION A LETTER OF CREDIT ON CONFIDENTIAL

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PHILIPPINE NATIONAL BANK (PNB) RATHER THAN QUEDANS TO SECURE ADVANCE PAYMENT. PNB OFFICIAL HAS TOLD EMBOFF, HOWEVER, THAT BANK WILL DEFINITEY NOT RPT NOT "MORTGAGE ITS FUTURE TO SUGAR" BY PROVIDING SUCH L/C'S. SUCREST SEEMS READY TO ACCEPT QUEDANS, BUT COMPANIES BANKERS HAVE SHOWN NO LIKING FOR THE PROPOSAL. THIS ISSUE IS SURE TO BE CONTENTIOUS ONE DURING RENEGOTIATIONS WITH BOTH COMPANIES.

5. UNDER PRESENT CONTRACTS NEITHER SUCREST NOR G.W. HAVE L/C'S TO BACK UP ADVANCE PAYMENTS, AND BOTH COMPANIES ARE HAVING DIFFICULTIES COLLECTING THESE PAYMENTS FROM GOP. SUCREST PROBLEMS WERE DISCUSSED IN REF. B. IN MID-FEBRUARY, GOP OWED SUCREST 35 MILLION DOLLARS IN ADVANCE PAYMENTS AND SUCREST HAD STOPPED ISSUING L/C'S IN AN ATTEMPT TO RECOUP. THIS SITUATION, SO FAR AS WE KNOW, REMAINS UNRESOLVED. NOW G.W. IN ITS TURN IS REFUSING TO OPEN FURTHER L/C'S UNTIL GOP REFUNDS 600,000 DOLLARS OWED THAT COMPANY. PNB REP VERIFIES THAT PROBLEMS EXIST BUT SAYS THEY ARE NOT "SERIOUS" AND ATTRIBUTES SLOWNESS IN PAYING TO DIFFICULTIES IN CALCULATING FINAL PRICE UNDER CONTRACT TERMS. G.W. REP DENIES THIS IS TRUE. METHOD AND TIMING OF PAYMENT WILL CERTAINLY BE MAJOR (BUT NOT ONLY) PROBLEM IN RENEGOTATION OF G.W. CONTRACT WHICH IS EXPECTED TO CONTINUE WHEN G.W. TEAM ARRIVES IN MANILA AROUND APRIL 11. NO DATE HAS BEEN SET FOR RECONVENING TALKS WITH SUCREST. SULLIVAN

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## Message Attributes

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